

LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.
Baton Rouge, Louisiana

FINANCIAL REPORT

June 30, 2008

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date

2/18/09

LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.
Baton Rouge, Louisiana

TABLE OF CONTENTS

June 30, 2008

	<u>Exhibit</u>	<u>Page</u>
INDEPENDENT AUDITORS' REPORT		1
FINANCIAL STATEMENTS		
Balance Sheet	A	3
Statement of Operations and Changes in Retained Earnings	B	4
Statement of Cash Flows	C	5
Notes to Financial Statements	D	6
Schedule of Expenditures of Federal Awards		12
Note to Schedule of Expenditures of Federal Awards		13
SPECIAL INDEPENDENT AUDITORS' REPORTS		
Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		15
Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133		17
Schedule of Findings and Questioned Costs		19
Schedule of Prior Year Findings and Questioned Costs		23



INDEPENDENT AUDITORS' REPORT

Board of Directors
Louisiana Health and Rehabilitation Options, Inc.
Baton Rouge, Louisiana

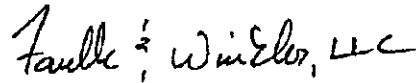
We have audited the accompanying balance sheet of **LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.** (Company) (an S-Corporation) as of June 30, 2008, and the related statement of operations and changes in retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of **LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.** as of June 30, 2008 and the results of its activities and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2008 on our consideration of the **LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.**'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the **LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.**'s basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Certified Public Accountants

Baton Rouge, Louisiana
December 12, 2008

LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.

Baton Rouge, Louisiana

BALANCE SHEET

June 30, 2008

ASSETS

	<u>2008</u>
CURRENT ASSETS	
Cash	\$ 766,039
Restricted cash	23,317
Investments	59,894
Receivables, net	313,114
Prepaid expenses and other	<u>6,881</u>
Total current assets	1,169,245
PROPERTY AND EQUIPMENT, net	132,609
DUE FROM RELATED PARTY - LHRC	56,389
OTHER	<u>3,000</u>
Total assets	<u><u>\$ 1,361,243</u></u>

LIABILITIES AND STOCKHOLDER'S EQUITY

CURRENT LIABILITIES	
Accounts payable	\$ 55,352
Accrued expenses	230,283
Amounts held for others	<u>23,317</u>
Total current liabilities	308,952
DUE TO RELATED PARTY - stockholder	<u>85,298</u>
Total liabilities	<u>394,250</u>
STOCKHOLDER'S EQUITY	
Common stock - no par value, 1,000 shares issued and outstanding	1,000
Retained earnings	<u>965,993</u>
Total stockholder's equity	<u>966,993</u>
Total liabilities and stockholder's equity	<u><u>\$ 1,361,243</u></u>

The accompanying notes to the financial statements
are an integral part of this statement.

LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.

Baton Rouge, Louisiana

STATEMENT OF OPERATIONS AND CHANGES IN RETAINED EARNINGS

For the year ended June 30, 2008

	<u>2008</u>
REVENUES	
Baton Rouge Waiver Services	\$ 852,638
Lafayette Waiver Services	3,385,763
New Orleans PTR	114,403
Social Detox	294,675
Other program services	190,134
Other	<u>30,872</u>
Total revenues	<u>4,868,485</u>
EXPENSES	
Payroll	3,460,276
Payroll benefits	575,893
Food	70,170
Occupancy	76,329
Rent	35,429
Professional	13,686
Insurance - automobile	18,464
Depreciation	26,288
Management fee	125,000
Other	<u>331,627</u>
Total expenses	<u>4,733,162</u>
Income from operations	135,323
OTHER	
Investment income	<u>9,924</u>
Net income	145,247
RETAINED EARNINGS	
Beginning of year, as restated	1,020,746
Distributions	<u>(200,000)</u>
End of year	<u><u>\$ 965,993</u></u>

The accompanying notes to the financial statements
are an integral part of this statement.

LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.

Baton Rouge, Louisiana

STATEMENT OF CASH FLOWS

For the year ended June 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES	2008
Net income	\$ 145,247
Adjustments for non-cash items:	
Depreciation	26,288
Change in operating assets and liabilities:	
Decrease in receivables	115,919
Decrease in prepaid expenses and other assets	8,398
Increase in accounts payable and other current liabilities	73,859
Net cash provided by operating activities	369,711
CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisitions of property and equipment	(84,299)
Increase in investments	(8,030)
Net cash used by investing activities	(92,329)
CASH FLOWS FROM FINANCING ACTIVITIES	
Distributions to stockholder and net change in amount due to stockholder	(200,000)
Advances from related parties, net	52,183
Net cash used by financing activities	(147,817)
Net increase in cash	129,565
CASH, including restricted cash	
Beginning of year	659,791
End of year	\$ 789,356
CASH	
Cash	\$ 766,039
Restricted cash	23,317
Total cash	\$ 789,356

The accompanying notes to the financial statements
are an integral part of this statement.

LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.
Baton Rouge, Louisiana

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and operations

Louisiana Health and Rehabilitation Options, Inc. (LHRO) is a Louisiana corporation whose purpose is to provide therapeutic psychiatric programs designed to eliminate inappropriate and maladaptive behaviors. Their services are designed to help persons with developmental disabilities and severe and persistent behavioral problems reach their maximum functioning level in the community.

All programs are operated in southern Louisiana and are primarily funded by the State of Louisiana agencies through the Department of Health and Hospitals.

Basis of presentation

The financial statements of LHRO have been prepared on the accrual basis of accounting.

Estimates

The preparation of financial statements in conformity with general accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used primarily when accounting for depreciation and allowance for doubtful accounts.

Revenue recognition

Revenues from grants and contracts are recognized according to the specific agreement. Generally, revenues from restricted grants are recognized in the period of the grant award while revenues from cost reimbursement contracts are recognized to the extent of services provided.

Cash and cash equivalents

Cash, for purposes of the statement of cash flows, consists of cash on hand, demand deposit and savings accounts, and certificates of deposit with original maturity of three months or less, except that cash and cash equivalents that represent client accounts are included with restricted cash.

Certificates of deposit with a maturity of greater than three months and investments in mutual funds are classified as investments.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted cash

LHRO, as custodial agent, maintains cash for clients in several of its programs. These amounts are segregated from LHRO's cash accounts.

Investments and investment income

Investments consist primarily of mutual funds and certificates of deposit. Investments, other than time certificates of deposit, have been recorded at market value, with the amount of unrealized gain or loss recorded in the statement of activities. However, if readily determinable fair values are not available, cost basis is used.

Time certificates of deposit are recorded at cost, which is market value.

Investment income includes dividends and interest earned on investments, the net gain and/or loss from trade of investments, and the unrealized gain and/or loss resulting from market value adjustment to investments.

Accounts receivable and allowance for doubtful accounts

Accounts receivable are recorded at cost, net of an allowance for doubtful accounts. Management evaluates collectability of its accounts receivable on a per customer basis. At June 30, 2008, the allowance for doubtful accounts is \$10,120. LHRO does not require collateral for its receivables.

Property and equipment

Property and equipment are carried at cost. Additions, renewals, and betterments that extend the life of assets are capitalized; maintenance and repair expenditures are expensed as incurred. The cost of property and equipment sold or otherwise disposed and the accumulated depreciation thereon are eliminated from the property and related accumulated depreciation accounts, and any gain or loss is credited or charged to income.

Depreciation is provided using the straight-line method over the estimated useful lives of the property, ranging from five to thirty-one and a half years.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Vacation leave

Unused vacation and sick leave lapse at year end, except that vacation may be awarded subsequently at the discretion of the Executive Director. Unused vacation may be awarded for carryover and is determined based on the contribution made by an employee for Company benefit. At June 30, 2008, \$46,733 has been accrued.

Fair value of financial instruments

The carrying value of cash, receivables, accounts payable and accrued expenses approximate fair value due to the short-term maturity of these instruments. None of the financial instruments are held for trading purposes.

Income tax

Effective July 1, 2006, LHRO elected to be taxed as an S Corporation. As such, taxable earnings and losses after that date are included in the personal income tax return of LHRO's shareholder and taxed according to her personal tax strategies. Accordingly, LHRO has not recorded income tax expense and liabilities for the periods subsequent to July 1, 2006. Prior to July 1, 2006, LHRO was a taxable entity.

LHRO is subject to certain "built-in" gains tax for the difference between the fair value and tax reporting basis of assets at the date of conversion to an S Corporation if the assets are sold (and a gain is recognized) within ten years following the date of conversion. LHRO may be subject to built-in gain taxes on sales of such assets.

Pension plan

In 2005, LHRO adopted a 401(k) retirement plan with a 3% matching option. Under the provisions of the plan, employees may elect to defer a percentage of their compensation up to a maximum of \$15,000 annually. Salary deferrals and the related earnings are 100% vested and non-forfeitable. During the year ended June 30, 2008, LHRO contributed \$21,064 to the plan.

These assets are held in the trust fund established under the Plan; the trust fund is independent of LHRO. The responsibility for administration of the plan is with Mutual of America Insurance Company.

Advertising

LHRO expenses advertising costs as incurred. Advertising expense for the year ended June 30, 2008 was \$5,214.

NOTE 2 - INVESTMENTS

Investments at June 30, 2008 were in mutual funds and a certificate of deposit. The certificate of deposit had a market (carrying) value of \$27,061 that approximates cost.

Investments in mutual funds at June 30, 2008 have a cost of \$37,537 and market value (financial statement basis) of \$32,833.

The summary of investment return at June 30, 2008 is as follows:

	<u>Amount</u>
Interest, dividends and capital gain distributions	\$ 15,680
Unrealized losses, net	<u>(5,756)</u>
	<u>\$ 9,924</u>

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment, related service lives and accumulated depreciation at June 30, 2008, are as follows:

	<u>Estimated Service Lives</u>	<u>Amount</u>
Leasehold improvements	7 years	\$ 6,710
Equipment	5-10 years	56,023
Furniture	7 years	27,240
Vehicles	5 years	147,453
Construction in progress	-	<u>20,484</u>
		257,910
Less accumulated depreciation		<u>(125,301)</u>
		<u>\$ 132,609</u>

Depreciation expense was \$26,288 for the year ended June 30, 2008.

NOTE 4 - RELATED PARTY TRANSACTIONS

LHRO rented office space from The Harmony Center, Inc. for the year ended June 30, 2008. The shareholder is also a shareholder of The Harmony Center, Inc. The rental expense incurred by LHRO under these lease agreements was \$22,200.

LHRO rented office space from Louisiana Health & Rehab Center, Inc. (LHRC), a non-profit organization managed by LHRO's shareholder. The rental expense incurred by LHRO under the lease agreement was \$9,600 for the year ended June 30, 2008. At June 30, 2008, LHRC owed LHRO \$56,389.

LHRO paid management fees to Johnson Management Group, LLC a company whose managing member is a shareholder of LHRO. The management fees for the year ended June 30, 2008 were \$125,000.

LHRO has received advances from the shareholder totaling \$85,298 as of June 30, 2008, with such amounts to be paid to the shareholder during 2009.

LHRO had funds invested with Primerica securities and the agent for Primerica is the son of the sole shareholder of LHRO. Subsequent to year end, the account was transferred to another financial representative who is not related to LHRO or its management.

NOTE 5 - ECONOMIC DEPENDENCY

LHRO derives its revenues from governmental sources as earned revenue or grants, the loss of which would have a material adverse effect on the Company's operations. During the year ended June 30, 2008, revenue derived from governmental sources accounted for the majority of revenue earned by LHRO.

NOTE 6 - CONCENTRATIONS OF CREDIT RISK

Financial instruments which subject LHRO to concentrations of credit risk consist primarily of receivables. In addition, LHRO maintains cash in local banks, which may, at times, exceed the FDIC limits. Management believes the risk is limited.

NOTE 7 - LOSS DUE TO FIRE

Certain property and equipment were destroyed in a fire in the administrative office in June 2007. There was approximately \$108,000 in insurance proceeds received during the year end June 30, 2008 for damages.

NOTE 8 - PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2008, an error was discovered in the recording of 2007 transactions. The changes resulted in the reduction of retained earnings of \$51,206 due to the overstatement of accounts receivable at June 30, 2007.

LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.

Baton Rouge, Louisiana

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2008

Grantor/State Pass-through/ Program name/ Location of Project	CFDA Number	Grant Amount	Federal Expenditures
U.S. Department of Health and Human Services			
State of Louisiana/Department of Health and Hospitals			
Capital Area Human Services District			
* Social Detoxification Treatment Facilities	93.959	\$ 364,724	\$ <u>294,675</u>
Total Federal Assistance			\$ <u>294,675</u>

* Major Program

LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.

Baton Rouge, Louisiana

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Louisiana Health and Rehabilitation Options, Inc. Schedule of Expenditures of Federal Awards presents the activity of the federal assistance programs of Louisiana Health and Rehabilitation Options, Inc. All federal assistance received directly from federal agencies as well as federal assistance passed-through other government agencies are included on the schedule.

Basis of Accounting

The Louisiana Health and Rehabilitation Options, Inc. Schedule of Federal Awards is presented using the accrual basis of accounting, which is described in Note 1 to the Louisiana Health and Rehabilitation Options, Inc.'s financial statements for the year ended June 30, 2008.

Special Independent Auditors' Report

LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.
Baton Rouge, Louisiana

June 30, 2008



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Louisiana Health and Rehabilitation Options, Inc.
Baton Rouge, Louisiana

We have audited the financial statements of **LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC. (LHRO)** (a non-profit organization) as of and for the year ended June 30, 2008, and have issued our report thereon dated December 12, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered LHRO's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LHRO's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of LHRO's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely effects LHRO's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of LHRO's financial statements that is more than inconsequential will not be prevented or detected by LHRO's internal control. We consider the deficiencies described in the schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by LHRO's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described in the schedule of findings and questioned costs are also considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LHRO's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed two findings described in the accompanying schedule of findings and questioned costs as instances of noncompliance that are required to be reported under *Government Auditing Standards*.

LHRO's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit LHRO's responses and, accordingly, we express no opinion on them.

This report is intended for the information of the Board of Directors, management, state and federal granting agencies, and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

Faulk & Winkler, LLC

Certified Public Accountants

Baton Rouge, Louisiana
December 12, 2008



**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Louisiana Health and Rehabilitation Options, Inc.
Baton Rouge, Louisiana

Compliance

We have audited the compliance of **LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC. (LHRO)** (a non-profit organization) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. LHRO's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on LHRO's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about LHRO's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on LHRO's compliance with those requirements.

In our opinion, LHRO complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered LHRO's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LHRO's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described above and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

LHRO's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit LHRO's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Organization's management and Board of Directors, the Louisiana Legislative Auditor and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statutes 24:513, this report is distributed by the Legislative Auditor as a public document.

Faulk & Winkler, LLC
Certified Public Accountants

Baton Rouge, Louisiana
December 12, 2008

LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.

Baton Rouge, Louisiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2008

1) Summary of Auditors' Results:

- A) The type of report issued on the financial statements: **Unqualified opinion**
- B) Significant deficiencies in internal control were disclosed by the audit of financial statements: **2008-1, 2008-2**
Material weaknesses: **2008-1, 2008-2**
- C) Noncompliance which is material to the financial statements: **2008-1, 2008-2**
- D) Significant deficiencies in internal control over major programs: **2008-1, 2008-2**
- E) The type of report issued on compliance for major programs: **Unqualified opinion**
- F) Any audit findings which are required to be reported under Section 510 (a) of OMB Circular A-133: **2008-1, 2008-2**
- G) Major programs:
 - US Department of Health and Human Services**
 - State of Louisiana**
 - Department of Health and Hospitals**
 - Capital Area Human Services District**
 - Social Detoxification Treatment Facilities**
 - CFDA 93.959**
- H) Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000**
- I) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133:
No

- 2) Findings relating to the financial statements reported in accordance with Government Auditing Standards: **2008-1, 2008-2**
- 3) Findings and questioned cost relating to federal awards: **2008-1, 2008-2**

LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.

Baton Rouge, Louisiana

SUMMARY OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2008

2008-1 Accounting Overview/Financial Statement Preparation

Observation: As a result of our audit, we found a lack of review and reconciliation in certain areas of the accounting and finance functions. Several account balances required reconciliation and corroboration to external documents to finalize preparation of the financial statements. The observations found are as follows:

- Cash and investments - as part of our auditing procedures, we noted that the bank reconciliations generated in Quickbooks included outstanding deposits and checks that were old. After clearing such items, the bank accounts required minor adjustment.
- Intercompany receivable and payables - amounts were not reconciled at year end and an adjustment of approximately \$89,000 was required.
- Accounts receivable – the general ledger account included amounts billed but denied, commonly known as contractual adjustments, from the State of Louisiana. It is customary for the type of services provided by LHRO to have these adjustments. Management indicated that a significant portion of the contractual adjustments are presently being vigorously pursued for collection.

Furthermore, adjustments to remove the amounts that are unlikely to be collected were not recorded. However, an adjustment was recorded for an allowance for uncollectible receivables.

- Payroll liabilities include accrued vacation, accrued payroll, the related withholdings for taxes and employee benefits. Payroll liabilities were adjusted by approximately \$28,000 for an overstatement.
- There was inadequate segregation of duties in the accounting department. The accounting manager was assigned general ledger, billing, payable and cash reconciliation duties for the year ended June 30, 2008. Another member of the staff was assigned payroll duties and was supervised by the accounting manager. Furthermore, subsequent to year end, LHRC added two additional accountants that were assigned certain functions as described above to provide a segregation of duties.

- LHRO relies on its auditors to assist in the preparation of external financial statements and related disclosures. Under U.S. generally accepted auditing standards, the auditors cannot be considered part of the LHRO's internal control structure, and because of limitations of the LHRO's accounting staff, the design of the internal control structure does not otherwise include procedures to prepare external financial statements and related disclosures in conformity with generally accepted accounting principles.

Recommendation: Our recommendations are as follows:

- First, we recommend management consider outsourcing general ledger oversight to an external certified public accountant.
- As to segregation of duties, we recommend that LHRO continue the current process of:
 - Preparing a monthly closeout binder including a reconciliation of all general ledger balance sheet accounts,
 - Monthly review of financial results compared to budgeted amounts with the Board of Directors.

Additionally, we recommend that LHRO implement the following:

- The unopened monthly bank statement (including all cancelled checks) be reviewed by the Executive Director or a board member. Management indicated that this process was begun in September 2008.
- Require dual signatures on all check disbursements, with the Executive Director as one of the designated signers. Management indicated that this process was begun in September 2008.
- The preparation of the bank reconciliation by the Assistant Accountant and the subsequent review by the Executive Director and contract accounting firm,
- Journal entries posted to the general ledger should be reviewed by the Executive Director and contract accounting firm on a monthly basis.
- We recommend that the accounting staff ensure that financial information is prepared for management on a timely and accurate basis.
- LHRO should liquidate intercompany balances outstanding on a monthly basis.

Management's corrective action plan: Management has indicated that it will consider the recommendations in an effort to improve the accuracy of the financial statements as well its controls over the internal financial statements. Management indicated that it plans to hire a certified public accountant to assist with the monthly reconciliation and review of LHRO's financial statements and provide advisory services as needed during the year.

Also, management indicated that due to strict hiring principles and procedures, recruiting staff for accounting was difficult. Management worked with smaller accounting staff than previously experienced. As a result, certain areas of accounting were not executed in accordance with management's directives. However, LHRO hired 2 additional accountants, subsequent to June 30, 2008 and expects these matters to be resolved during 2009.

2008-2 Support for Cash Disbursements

Observation: During our observation of expenditures of LHRO for 2008, we observed that check copies, in-house requisitions and/or credit card statements were the sole documentation retained in support of certain disbursements. The purchases were charged to fixed asset accounts as well as expenses based on the name of the vendor rather than a detailed invoice. Policy allows for the employee to prepare an affidavit of validity as appropriate support for credit card purchases.

To provide adequate disbursement documentation, a copy of the invoice as well as a check/purchase request form containing a description of the purpose when there is no invoice, should be retained for each disbursement.

Recommendation: We recommend that the use of credit cards be limited and that approved vendors be identified for items such as office and program supplies. Purchases should be approved in advance and this approval should be documented by a signature and date on the purchase order or invoice. Furthermore, credit card purchases should be reconciled monthly to supporting third party invoices.

Finally, all cash disbursements should be supported by a third party invoice.

Management's corrective action plan: Management indicated that during 2007 it changed its credit card procedures to limit the number of employees that were authorized to use the cards. Management has indicated that it will require supporting documentation be maintained for all purchases for future years.

LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.

Baton Rouge, Louisiana

SUMMARY OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2008

2007-1 Record Retention/Financial Statement Preparation

The matter relating to record retention is considered resolved.

The issues related to financial statement preparation have been reclassified as Finding 2008-1.

2007-2 Segregation of Duties

This finding has been reclassified as part of Finding 2008-1.

2007-3 Preparation of Financial Statements

This finding has been reclassified to Finding 2008-1.

2007-4 Theft Loss (Resolved)

During the year ended June 30, 2007, management alleged a theft of funds by an employee by using a stolen credit card and forging check disbursements. Management recorded an expense for 2007 of \$2,459. LHRO contacted local law enforcement officials and an arrest has been made. We consider this finding to be resolved.

2007-5 State/Federal Reporting Requirements (Resolved)

During the 2007 engagement, it was reported that LHRO was not in compliance with the reporting requirements for recipients of state and/or federal funding, as follows:

- Submitting an audited financial statements by the reporting deadline of December 31, 2007;
- Filing a non-profit informational tax return - Form 990, before the extended deadline of May 15, 2008, for the June 30, 2007 return; and
- Preparing a schedule of federal financial awards as a supplemental schedule to the financial statements.

The matters resolved are considered resolved.